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ACCOUNTING BASIS OF BUDGETARY PROCEDURE

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An accounting system to properly supplement budget procedure must provide for such an analysis of actual and estimated expenditures and receipts that the official and the citizen may pass judgment upon the plans proposed for the new year by a comparison of actual expenditures and receipts in past years with the estimated expenditures and receipts for the coming year.

Such an accounting system has been developed in Philadelphia by City Controller Walton, who began January 1, 1911, to analyze expenditures by fund, organization unit, function (or activity), character and object. These classifications are indicated in the following outline:

FUND—General, Loan, Special and Trust.

ORGANIZATION UNIT—City Treasurer, Bureau of Water, Sheriff, etc.

FUNCTION—Fire Fighting, Isolation of Contagious Diseases, Construction of Sewers and Inlets, etc.

CHARACTER—Expenses Incurred and Payment of Funded Debt:

Administration,

Operation,

Maintenance,

Debt Service and

Other Expense.

Property Acquisitions.

Net Changes in Working and Current Assets:

Stores,

Postage and transportation,

Reductions in Current Liabilities,

Abatements of Revenue and

Expenditures on Account of Prior Years.

OBJECT—Personal Services,

Services Other Than Personal,

Materials,

Supplies,

Equipment,

Structures and Non-structural Improvements to Land, Land,

Rights, Obligations and Payment of the Funded Debt,

Fixed Charges and Contributions, and
Pensions and Retirement Salaries,
Losses and Contingencies

The above sub-head titles are complete under fund, character and object. Under organization unit and function only illustrations are given as the complete list of these two classifications would take considerable space. They are both given in full in City Controller Walton's budget statement for the year 1916.

Probably interest centers more closely upon the expenditure side rather than the receipt and income side of budget accounting. Expenditure classifications for budget purposes should cover at least a three-year period, namely: (1) the expenditures of the last completed year, (2) the appropriations of the current year, (3) the expenditures of the current year to as late a date as obtainable, (4) the estimated expenditures for the remainder of the current year, and (5) the departmental estimates for the coming year for which the budget is being prepared. These several groups of figures must be subjected to a common classification in order that they may be comparable. When so presented the eye can readily follow the changes from one year to another and can note the changes in the object of expenditure, in the character of expenditure, in the function (or activity), in the organization unit and in the fund. Any of these changes may be significant.

In the object classification, for example, an increase in personal services, materials and supplies and a decrease in services other than personal would mean that more of the city's work was to be done by administration and less by contract. A decrease in rentals and an increase in property acquisitions would indicate expenditures for permanent properties to replace leased properties, thereby reducing the fixed charges for rentals.

In the character classification a marked falling off in maintenance may indicate that properties and equipment are not being properly maintained. Large expenditures for property acquisitions should be reflected in increased maintenance expenditures to provide for the upkeep of the newly-acquired properties. Increase in operation may be the result of an expansion of the existing functions (or activities) or the taking on of new functions not previously performed by the city government.

The relative use of loan moneys for current expenses and reve-

nue moneys for permanent improvements and property acquisitions is clearly set forth in the fund expenditure classification. The classification by organization unit shows the expenditure for each department and bureau and the classification by function (or activity) shows the expenditures, actual or estimated, for each one of the many functions of the government of the city.

In order to have available for budget purposes the actual expenditures for the last completed year, it is necessary to keep expense, stores and property ledgers, together with a complete analysis of expenditures by the foregoing classifications. These analyses can be best secured by punching the information upon cards and sorting and tabulating the results thus obtained by means of machines. What would ordinarily be a very tedious task, if done upon analysis sheets, thus becomes a very simple one and the results are secured in a minimum of time.

General account receipts are presented in the budget in a statement which shows the actual receipts of past years and the estimated receipts of the coming year for which the budget has been prepared. In the budget for the city of Philadelphia referred to above, the estimated general account receipts are presented in two ways, *viz.*: (1) the departmental estimates of what will be received, the purpose of which is to show any discrepancies in the five-year average, (2) the five-year average made by the city controller as required by act of assembly, which estimate limits the amount of general funds which may be appropriated by city councils. In addition to this annual estimate there is usually a fund surplus available at the closing of the year's books, arising from an excess of the actual receipts over the estimated receipts and from merging balances of appropriations. These are the only sources from which general funds may be secured for appropriation, with the exception that city councils may authorize a temporary loan not exceeding \$1,200,000 redeemable in four months.

The amount of loan funds that becomes available for appropriation each year depends upon the increase in the assessed valuation of taxable property, upon changes in the gross amount of funded debt outstanding, upon the increase in the amount of city loans held as investments by the commissioners of the sinking fund and upon changes in the status of other liabilities of the city.

Special and trust funds become available for appropriation

through the receipt by the city treasury of money for special and trust purposes, being appropriated then only for those specific purposes, for which it was received.

In addition to classified statements of expenditures and receipts, a budget to be complete should include comparative balance sheets, with actual and estimated figures, and comparative operation and surplus accounts with actual and estimated figures. Such balance sheets, operation and surplus accounts may be found in City Controller Walton's budget statements for 1915 and 1916.

Budget accounting is a source of information by means of which the citizen can fairly judge the results secured by officials and their programs for future accomplishments. I say "fairly judge" because I do not believe that the great majority of American citizens want to judge unfairly or in ignorance, if the basis for fair and intelligent judgment is presented in the budget. It serves a second purpose in that it is a bulwark of defense for the honest official. With it he can defend his past performances and explain the various increases asked for.